

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 3763 – HB 3761

April 23, 2012

**SUMMARY OF AMENDMENT (017116):** Deletes all language after the enacting clause. Reduces the state sales tax rate levied on the retail sale of food and food ingredients from 5.5 percent to 2.75 percent.

FISCAL IMPACT OF ORIGINAL BILL:

Decrease State Revenue – Net Impact - \$17,065,500

Increase Local Revenue – Net Impact – Exceeds \$410,200

According to the Department of Finance and Administration, the Division of Budget, the Governor's proposed budget for FY12-13 reflects a recurring decrease in state revenue to the General Fund of \$18,000,000 per year.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Decrease State Revenue – Net Impact - \$234,651,300

Decrease Local Revenue – Net Impact - \$8,109,300

According to the Department of Finance and Administration, the administration amendment to the general appropriations bill reflects a recurring decrease in state revenue to the General Fund of \$21,300,000.

Assumptions applied to amendment:

- According to the Department of Revenue, state sales tax collections derived from food and food ingredients in FY10-11 were \$489,939,858.44.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year.
- Under current law, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$509,733,429 (\$489,939,858.44 x 102.0% x 102.0%) for FY12-13.

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- Under current law, taxable sales of food and food ingredients for FY12-13 are estimated to be \$9,267,880,527 (\$509,733,429 / 5.5%).
- Under this bill as amended, state sales tax collections derived from the retail sale of food and food ingredients is estimated to be \$254,866,714 (\$9,267,880,527 x 2.75%) for FY12-13.
- The decrease in state sales tax revenue attributable to the rate reduction is estimated to be \$254,866,715 (\$509,733,429 - \$254,866,714) for FY12-13. This number is assumed to remain constant in subsequent years.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$11,704,754 (\$254,866,715 x 4.5925%).
- The net recurring decrease in state sales tax revenue attributable to the tax rate reduction on food and food ingredients is estimated to be \$243,161,961 (\$254,866,715 - \$11,704,754).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales-taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on other non-food sales-taxable goods and services is estimated to be \$8,510,669 [(\$254,866,715 x 50.0% x 7.0%) – (\$254,866,715 x 50.0% x 7.0% x 4.5925%)].
- The recurring increase in state-shared sales tax revenue apportioned to local governments as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services is estimated to be \$409,666 (\$254,866,715 x 50.0% x 7.0% x 4.5925%).
- The total recurring increase in local revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services, which includes additional local option sales tax revenue and additional state-shared sales tax revenue, is estimated to be \$3,595,500 [(\$254,866,715 x 50.0% x 2.5%) + \$409,666].
- The net recurring decrease in state revenue as a result of this bill as amended is estimated to be \$234,651,292 (\$243,161,961 - \$8,510,669).
- The net recurring decrease in local revenue as a result of this bill as amended is estimated to be \$8,109,254 (\$11,704,754 - \$3,595,500).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/rnc